

Memorandum

To: Chair and Commissioners

Date: January 18, 2007

From: John F. Barna, Jr., Executive Director

File No: Item 4.3
INFORMATION

Ref: Highlights of the Proposed 2007-08 Budget

The attached letter from Caltrans summarizes Caltrans' budget as proposed by the Administration on January 10, 2007. As expected after the passage of Propositions 1A and 1B in November, the 2007-08 Governor's Budget proposes significant increases in transportation spending. However, partially offsetting this increase is the continued diversion of Public Transportation Account resources. The changes proposed would underfund the State Transportation Improvement Program (STIP) by over \$750 million in 2007-08 and could underfund the STIP by more than \$1.5 billion over the five-year period ending in 2010-11. Below is a summary of some of the key issues raised by the proposed budget.

Proposition 1B Bonds:

The Governor's Budget proposes current-year implementation of the Proposition 1 B bonds. The Administration has proposed that \$523 million be appropriated for the current-year implementation of several bond programs. Establishing these appropriations would require urgency legislation. The benefit to allocating funds in the current-year depends upon how soon the appropriations are available.

The Governor's Budget proposes \$7.685 billion in appropriations from the Proposition 1B bonds in 2007-08. These appropriations would be available for allocation through 2009-10. The Administration has proposed the ability to move budget authority between the various bond programs with Department of Finance and Legislative approval. The ability to move authority between funds will help speed the implementation of the bond programs if the mechanism proposed is not overly burdensome.

The Administration is also proposing an expanded role for the Commission in many of the bond programs. While few details of this proposal are clear, one example proposed in budget bill language would require that bond funds apportioned for local streets and roads improvements be subject to project allocation by the Commission. While staff are supportive of the concept of an expanded role for the Commission if it will provide additional accountability to the public, a firm position should not be taken until more details of the proposal are available.

Public Transportation Account:

The Governor's Budget proposes to divert over \$1.1 billion from the Public Transportation Account to fund items previously paid by the General Fund, including the ongoing diversion of over \$600 million annually to fund the Department of Education's Home-to-School Transportation program. The table below lists the proposed diversions.

Public Transportation Account Diversions (\$ in millions)	
Transportation Bond Debt Service:	
Clean Air And Transportation Improvement Act of 1990 (Prop. 116)	\$124
Passenger Rail And Clean Air Bond Act of 1990 (Prop. 108)	\$71
Seismic Retrofit Bond Act of 1996 (Prop. 192)	\$145
Transportation Bond Debt Service	\$340
Developmental Services Regional Center Transportation	\$144
Home-to-School Transportation	\$627
Total Public Transportation Account Diversions	\$1,111

The Public Transportation Account is nearly fully programmed through 2007-08. These diversions will leave the STIP severely under funded. Should this occur the Commission will need to fund these programmed transit projects with Transportation Investment Fund resources or bond funds. Should these diversions occur, the 2006 STIP Augmentation that the Commission will adopt in June will be underfunded, perhaps requiring the Commission to adopt a 2007-08 allocation plan limited by projections of the available cash.

Using Proposition 1B bond funds to fund previously programmed STIP projects, as suggested in the budget, seems to be doing a disservice to the voters who enacted the proposition. First, the proposed diversion reduces the bond funds that are available to fund new transportation projects. Second, by using the Public Transportation Account funds as proposed, the budget is effectively using bond funds to fund two operations programs (Developmental Services Regional Center Transportation and Home-to-School Transportation) and to repay bonds approved by voters more than a decade ago.

The Administration is also basing the diversion of Public Transportation Account resources to fund these General Fund items upon projected spillover revenues of \$617 million. The Legislative Analyst's Office has noted that if gasoline prices are 5% below the Administration's forecast (\$2.73 per gallon rather than \$2.87 per gallon) there will be insufficient funds in the Public Transportation Account to pay for all the expenditures proposed in the budget.

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January 17, 2007

Chair and Commissioners
California Transportation Commission
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On January 10, 2007, the Governor released his 2007-08 Proposed Budget. The Governor's Budget proposes expenditures of \$12.8 billion, including \$11.2 billion from non-General Fund sources, for the Department of Transportation (Department). This is an increase of \$1.5 billion from the revised 2006-07 Budget¹, due primarily to Proposition 1B that was approved by voters in November 2006. Proposition 1B is the cornerstone of transportation funding under the Governor's Strategic Growth Plan (SGP), and its passage authorized the issuance of \$19.9 billion in general obligation bonds under the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act).

Summary of Governor's 2007-08 Proposed Budget

(Dollars in Millions)

Activity and Program	Current Year Budget Year		Change from	
	2006-07	2007-08	Current Year	
			\$	%
Capital Outlay	\$4,646	\$5,802	\$1,157	24.9%
Local Assistance	2,958	3,193	235	8.0%
State Operations	3,615	3,764	149	4.1%
Department Total	\$11,219	\$12,760	\$1,541	13.7%
Salaries and Wages	1,908.7	2,068.7	160.0	8.4%
Department Positions	22,692.0	22,638.0	(54.0)	-0.2%
COS* Personnel Equivalents (PYEs)	1,343.0	1,343.0	0.0	0.0%

* Capital Outlay Support

Note: Totals may not equal sum of components due to independent rounding.

¹ The revised 2006-07 Budget includes an additional \$523 million in Proposition 1B funds proposed to be appropriated through urgency legislation to expedite delivery of high priority projects that are ready to go to construction.

Major Proposals

Public Transportation Account

Several changes to the Public Transportation Account (PTA) are proposed in the 2007-08 Governor's Budget. One of the major changes proposed is authorizing the reallocation of PTA revenues, including spillover, to priority General Fund transportation uses including: Home-to-School Transportation (\$627 million); Developmental Services-Regional Center Transportation (\$144 million); and Transportation General Obligation Bond debt service (\$340 million). Funding for Regional Center Transportation and debt service is proposed for one year only while Home-to-School Transportation is proposed as a permanent adjustment. If insufficient money is available from the PTA in future years to sustain Home-to-School Transportation, any additional funding needed will be provided by the General Fund.

The budget proposes to exclude spillover revenues from the State Transit Assistance Fund (STA) distribution formula, which would necessitate a change to current law. However, this reduction will be partially offset by increases to Proposition 42 transfers starting in 2008-09. The budget also proposes a lower STA transfer in 2007-08 to offset an overpayment in 2006-07.

The budget proposes to permanently cease transfer of non-Article XIX revenues from the State Highway Account (SHA) to the PTA, and instead use these funds to reduce the backlog in pavement maintenance through an increase to the Maintenance Program. The non-Article XIX transfers to the PTA began in 2000, to help with PTA funding shortfalls at the time. The Governor's proposal returns these funds to their original uses for funding highway projects.

As a result of the reallocation of PTA revenues discussed above, the proposed budget only includes PTA funding for AB 3090 cash reimbursements and Bay Area Ferry Operations as identified in the 2006 State Transportation Improvement Plan (STIP) Fund Estimate. It does not include any funding for new capital STIP projects allocations in 2007-08. The current STIP program includes approximately \$540 million in PTA funded projects for 2007-08, not including AB 3090 reimbursements. These projects would be eligible for funding through Proposition 1B bonds.

Proposition 42

The Budget proposes a total of \$1.6 billion in Proposition 42 funding in 2007-08. This includes \$1.5 billion to fully fund Proposition 42 in 2007-08, and \$83 million towards repayment of Proposition 42 debt, per Proposition 1A. The \$602 million transfer to the Traffic Congestion Relief Fund (TCRF) in 2007-08, as shown below, marks the last transfer to the TCRF under the original plan. Funding that was suspended under Proposition 42 will be repaid by June 30, 2016 as required by Proposition 1A. Assuming equal payments, this amounts to \$82 million per year, after 2007-08.

2007-08 Proposition 42 full funding would be distributed as follows:

Proposition 42 - Full Funding	
Traffic Congestion Relief Program (TCRP)	\$602
State Transportation Improvement Program (STIP)	699
Public Transportation Account (PTA)	175
Total	\$1,475

The Proposition 42 loan repayment would be distributed as follows:

Proposition 42 - Loan Repayment	
Traffic Congestion Relief Program (TCRP)	\$82
Public Transportation Account (PTA)	1
Total	\$83

Proposition 1B (Transportation Bonds)

The budget proposes \$8.2 billion in appropriations, including \$5.8 billion for the Department, from Proposition 1B bonds, including current year spending of \$523 million that will require enabling legislation before any projects can move forward. The Governor's Budget proposes appropriations totaling three years of projected allocations to permit some flexibility as program and project selection matures (see Attachment A for details).

The proposed allocation levels were based upon preliminary estimates that are subject to refinement as the project selection processes move forward. We attempted to balance opportunities to advance projects as quickly as possible with debt service considerations. There will be opportunities to seek adjustments to appropriation levels through a budget adjustment request in the spring. The allocation levels have taken into account a 15 percent set-aside for Capital Outlay Support (COS) as a rough estimate. Actual COS needs will be addressed in the Spring finance letter process.

Most Proposition 1B programs will be administered by either the California Transportation Commission (Commission) or the Department, with the exception of:

- The California Ports Infrastructure, Security, and Air Quality Improvement Account (Air Resources Board and Office of Emergency Services).
- The School Bus Retrofit/Replacement (Air Resources Board).
- \$3.6 billion of the Public Transportation Modernization, Improvement, and Service Enhancement Account (State Controller's Office (SCO)).
- The Transit System Safety, Security, and Disaster Response Account (Office of Emergency Services and Homeland Security).

The Department is also responsible for \$400 million of the Public Transportation Modernization, Improvement, and Service Enhancement Account to administer intercity rail projects as well as the acquisition of rolling stock. The Department's budget does not reflect an appropriation for this item, because the Administration is still considering appropriate program implementation.

The Bond Act states that funds made available in the Local Streets and Roads Improvement, Congestion Relief and Traffic Safety and in the Public Transportation Modernization, Improvement, and Service Enhancement Account are to be appropriated and distributed by the SCO by formula distribution. However, the proposed Budget Act directs the Commission to allocate these funds. It is likely that further legislation will be introduced in the upcoming months to address any existing ambiguities and to codify additional requirements.

Tribal Gaming Revenue

Several lawsuits have prevented the issuance of tribal gaming bonds. The Budget now assumes spending the tribal compact cash as it is received estimated at \$100 million annually. Consistent with current law, \$100 million in 2007-08 will be deposited in the SHA. The Budget proposes that these funds be made available only for pavement rehabilitation projects programmed in the SHOPP.

Explanation of Major Expenditure Changes

Capital Outlay

The proposed capital outlay budget for 2007-08 reflects an overall increase of \$1.2 billion primarily due to Proposition 1B funding. Major differences are as follows:

- Transportation bonds add \$1.5 billion - \$1.1 billion in budget year and \$443 million in current year.
- Capital PTA expenditures experience a decrease totaling \$41 million. This decrease is due to the reallocation of PTA revenues, including spillover, to priority General Fund transportation uses as detailed above.
- A one-time increase of \$62.3 million to capital outlay occurs in 2007-08 due to the movement of funding for the Oakland District Office Building Seismic Retrofit Project from 2006-07 to 2007-08.

Local Assistance

The net change to local assistance in the 2007-08 proposed budget is an increase of \$235 million. Major differences include:

- Transportation bonds add \$494 million - \$414 million in budget year and \$80 million in current year.
- TCRF expenditures are proposed to increase by \$226 million from 2006-07.
- Local Subvention expenditures are projected to increase by \$198 million, which is mainly attributable roll over of authority from the 2006-07 fiscal year.
- Local PTA expenditures decrease \$461 million due to the shift of PTA revenues to other programs that were previously funded through the General Fund as discussed above.

State Operations

There is an overall increase in 2007-08 State Operations totaling \$149 million. The bulk of the increase is due to additional \$85 million of funding for pavement maintenance activities as discussed, and to salary increases and associated retirement benefit costs. Attached is a list of the proposed Budget Change Proposals affecting the 2007-08 budget year (see Attachment B).

If you have any questions or suggestions regarding this information, please contact Norma Ortega at (916) 654-4556.

Sincerely,



CINDY MCKIM
Chief Financial Officer

Attachments

- c: Norma Ortega, Chief, Division of Budgets
Steven Keck, Chief, Office of Capital and Finance
Division of Budgets

Attachment A

2007-08 Proposition 1B Bond Appropriations

(Dollars in Millions)

Administered by the Department of Transportation:		2006-07	2007-08	2007-08	2008-09	2009-10	4-Year Total
Fund#	Fund		Total Appropriated	Projected Allocations			
6055	Corridor Mobility Improvement Account	\$100	\$2,119	\$317	\$ 712	\$ 1,090	\$2,219
6053	Highway Safety, Traffic Reduction, Air Quality & Port Security Fund (for State Route 99)	0	\$171	28	44	99	\$171
6056	Trade Corridors Improvement Fund	15	\$680	170	255	255	\$695
6058	Transportation Facilities Account (for STIP)	262	\$1,035	340	287	408	\$1,297
6060	State-Local Partnership Program Account	0	\$502	170	166	166	\$502
6062	Local Bridge Seismic Retrofit Account	5	\$39	9	13	17	\$44
6063	Highway-Railroad Crossing Safety Account	0	\$174	55	60	59	\$174
6064	Highway Safety, Rehabilitation, & Preservation Account (for SHOPP)	141	\$518	403	102	13	\$659
Total Prop 1B Bond Appropriations, Department of Transportation:		\$523	\$5,238	\$1,492	\$1,639	\$2,107	\$5,761

Administered by Other Agencies:		2006-07	2007-08	2007-08	2008-09	2009-10	4-Year Total
Fund#	Fund - Purpose - Administering Agency						
6059	Public Transportation Modernization, Improvement & Service Enhancement Account (for Transit) - by State Controller's Office	\$0	\$1,300	600	350	350	\$1,300
6061	Transit System Safety, Security & Disaster Response Account (for Transit Security) - by Office of Emergency Services	0	N/A	0	0	0	\$0
6065	Local Streets & Road Improvement, Congestion Relief & Traffic Safety Account (for LS&R) - by State Controller's Office	0	\$1,050	600	300	150	\$1,050
6063	School Bus Retrofit/Replacement - by Air Resources Board*	0	\$97	97	N/A	N/A	\$97
6054	CA Ports Infrastructure, Security & Air Quality Improvement Account (for Port Security) - by Office of Emergency Services	0	N/A	0	0	0	\$0
Total Prop 1B Bond Appropriations, Other Agencies		\$0	\$2,447	\$1,297	\$650	\$500	\$2,447
Total Prop 1B Bond Appropriations:		\$523	\$7,685	\$2,789	\$2,289	\$2,607	\$8,208

Note: Totals may not equal sum of components due to independent rounding.

* Multi year funding is not proposed for this account.

FY 2007-08 Proposed Budget Change Proposals

The proposed 2007-08 Governor's Budget includes \$148.2 million of Budget Change Proposals (BCP) of which \$4.8 million is for Personal Services (64.9 PYs), and \$143.5 million is for Operating Expenses.

BCP 1 Increase of \$9.0 million in operating expenses within the State Highway Account (SHA) for increased fuel costs for a one-year limited-term. This will fund the increased fuel prices for operating equipment and vehicles used to maintain the state highway system and to deliver transportation projects.

BCP 2B Increase of \$1.4 million for a five-year limited-term in operating expenses for the increased costs of complying with ongoing federal and state air quality mandates that require the Department to purchase (more expensive) alternative fuel and low emission vehicles.

BCP 3 Increase of \$12.2 million to fund increases to highway maintenance materials costs, Department of General Services (DGS) radio telecommunications costs, and California Highway Patrol agreements costs for MAZEPP safety patrols in maintenance work zones.

BCP 5 Increase of \$7.2 million and 1.3 PYs for a five-year term to complete the statewide 800 MHz conversion for District 10 (Stockton).

BCP 7 Increase of \$1.7 million and 1.9 PYs (\$199,000 in personal services and \$1,540,000 in operating expenses) per year over a five-year period for non-project related underground storage tank (UST) monitoring activities to assist with compliance monitoring requirements that are mandated by federal and state law regulations.

BCP 8 Increase for a five year limited term for \$11.8 million to comply with California Air Resources Board (ARB) mandated reporting.

BCP 9 Permanent increase of 5.7 PYs and \$98 thousand to fund Civil Service Custodial Staff in State Office Buildings in District 3 (Marysville) and District 5 (San Luis Obispo).

BCP 9A Increase of \$483 thousand to fund increases in DGS costs for maintenance and operation of five Sacramento area departmental facilities.

BCP 10 Transfer Headquarters Communications Center (HCC) from Maintenance (20.80) to Traffic Operations 20.70), and moves the spending authority from Federal to State for Project Initiation Document (PID) effort, which is not federally eligible.

BCP 11 Increase of \$313 thousand and 3.8 PYs to fund oversight cost increase for required enforcement of prevailing wage requirements.

BCP 13 Increase of funds for the Virtual Traffic Monitoring Stations (VTMS) for a one-time increase of \$1.2 million in State Highway Account (SHA) funding for a two-year pilot project to determine the effectiveness of purchasing real-time traffic data from one or more private vendors for use by the Department to expand detection of vehicle speeds and counts for approximately 1,600 miles of gaps in existing state highway detection coverage.

BCP 14 Increase of 38.0 PYs and \$9.7 million (\$2,655,000 personal services and \$7,052,000 operating expenses) to maintain and repair new intelligent transportation system (ITS) field elements such as traffic signals, changeable message signs, and closed circuit television (CCTV) cameras, and the associated communications systems.

BCP 15 Increase of 14.2 PYs, and \$1.5 million (\$1,369,000 in personal services, and \$130,000 in operating expenses) to provide operational engineering support of the elements in the existing Transportation Management System (TMS) inventory.

BCP 16 Increase of \$6.5 million to fund the State's portion of operating the Intercity Passenger Rail Service.

BCP 23 Increase of \$85 million to fund a ten-year effort to eliminate maintenance backlog by approximately 700 lane miles per year.